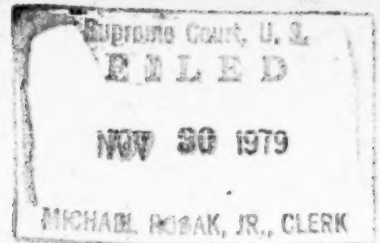


No. 79-523



In the Supreme Court of the United States

OCTOBER TERM, 1979

LEESONA CORPORATION, PETITIONER

v.

UNITED STATES OF AMERICA

**ON PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF CLAIMS**

**BRIEF FOR THE UNITED STATES
IN OPPOSITION**

WADE H. MCCREE, JR.
Solicitor General

ALICE DANIEL
Acting Assistant Attorney General

LEONARD SCHAITMAN

THOMAS J. BYRNES

JOSEPH B. SCOTT

JOHN FARGO

Attorneys

Department of Justice

Washington, D.C. 20530

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OPINIONS BELOW

The opinion of the trial judge on accounting is reported at 198 U.S.P.Q. 4 (Pet. App. 1a-46a). The en banc opinion of the Court of Claims on accounting is reported at 599 F. 2d 958 and 202 U.S.P.Q. 424 (Pet. App. 47a-93a). The opinion of the trial judge on the liability phase is reported at 185 U.S.P.Q. 156 and, along with the Court of Claims affirmance, at 530 F. 2d 896 (Pet. App. 95a-120a). The opinion of the Court of Claims on the issue of attorneys' fees is reported at 213 Ct. Cl. 722 and 197 U.S.P.Q. 737 (Pet. App. 121a-124a).

JURISDICTION

The judgment of the Court of Claims was entered on May 16, 1979, and a petition for rehearing was denied

on June 29, 1979. The petition for a writ of certiorari was filed on September 27, 1979. The jurisdiction of this Court is invoked under 28 U.S.C. 1255(1).

QUESTION PRESENTED

Whether the Court of Claims correctly determined the amount of damages that petitioner is entitled to recover as a result of patent infringement by the United States.

STATEMENT

This petition concerns the accounting phase of a suit under 28 U.S.C. 1498(a) to determine the compensation for the unauthorized use by the United States of the inventions covered by three patents owned by petitioner. Petitioner's complaint claimed the unauthorized use by or for the United States of seven patents. After a lengthy liability trial, three of the seven patents were held valid and infringed, two of the patents were held invalid, one was held not infringed and one was found to be licensed to the United States government (Pet. App. 95a). The subject matter of the infringed patents relates to fuel cells and batteries (electrochemical devices for the generation of electrical energy by chemical processes).

The evidence at trial showed that in the 1950's and 1960's, the United States, through both civilian and military agencies, undertook a program for the development and exploitation of fuel cells. Petitioner was a government contractor in this government-sponsored fuel cell research program. Its first contract for the construction of a battery came in 1965, when it contracted with the Air Force to develop a "high-rate missile" battery. Subsequently, the Army negotiated a sole-source development contract in March 1966 with petitioner for a battery to meet an urgent Marine Corps' requirement (Def. Exh. 279). Toward the end of the

development program, the Marine Corps conducted tests on a number of batteries, including petitioner's battery that had been built under contract. Thereafter, the Marine Corps selected petitioner's design for further testing and possible procurement (Pet. App. 63a).

The Marine Corps later decided to procure the batteries developed under contract by petitioner for use in the Vietnam conflict. The Marine Corps first contemplated issuing a sole-source contract to petitioner, but later determined that the request for procurement should be placed on competitive bidding. After consideration of several bids, including petitioner's, the contract was awarded to Eagle-Picher Industries, Inc. (Pet. App. 63a-64a). The Court of Claims held that in these circumstances the United States had infringed petitioner's valid patents (*id.* at 51a-52a).

After petitioner had established the government's infringement of the patents in the liability phase of the action (Pet. App. 95a), the trial judge awarded damages based on his view of the scope of 28 U.S.C. 1498(a), which in the case of infringement by the United States provides that "the [patent] owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture." The trial judge took the position that, except for injunctive relief, 28 U.S.C. 1498 was intended to duplicate the remedies for private infringement found in 35 U.S.C. 284 *et seq.* (Pet. App. 53a). He further determined that this was the kind of extraordinary case in which the persons injured by the government's infringement could obtain treble damages and attorney's fees under Section 1498, just as private parties may obtain them under 35 U.S.C. 284 and 285 (Pet. App. 53a). Accordingly, the trial judge computed

damages and determined that petitioner was entitled to judgment in the amount of \$3,534,753.52, which included attorneys' fees of \$100,000 and delay compensation for the period from November 6, 1969, to December 31, 1977. The trial judge also ordered the payment of further delay compensation at the rate of \$470.51 per day from January 1, 1978, until satisfaction of the judgment (Pet. App. 47a).

The en banc Court of Claims concluded that "the trial judge's award is largely excessive because of his erroneous assumption that he was adjudicating a tort claim for patent infringement under various provisions of Title 35 of the Code" (Pet. App. 47a-48a). The court further explained that "[t]he fundamental error of the trial judge is that he has taken 28 U.S.C. §1498, which is essentially an Act to authorize the eminent domain taking of a patent license, and to provide just compensation for the patentee, and he has converted it to a consent to suit on a tort theory, and the treatment of the United States as a tort-feasor" (*id.* at 55a). The Court of Claims stressed that it "has traditionally searched the law of eminent domain for legal precedents and principles to apply in determining the 'reasonable and entire compensation' to be granted in a valid infringement action against the government" (*id.* at 57a), noting that the trial court improperly used the language of Section 1498 "to justify the award of double damages, profits, savings to the government, and attorneys' fees in addition to a reasonable royalty he deemed due [petitioner] for infringement" (*ibid.*). The Court of Claims concluded that, in using the phrase "entire" to describe the compensation due the infringed patentee in Section 1498, Congress merely meant "to underscore the exclusivity of the remedy of suit in the Court of Claims" (*id.* at 58a); it did not intend to give patentees the same rights against the government that they have against private infringers under 35 U.S.C. 284 *et seq.*

After concluding that the trial judge had proceeded from an erroneous premise in calculating the amount of the award, the Court of Claims reviewed the specific elements of the award. It determined that the trial judge's doubling of damages due to the government's putative "bad faith" was meant to punish "the U.S. Government for its mishandled procurement procedures * * * [rather than being based] on any estimate of [petitioner's] loss" (Pet. App. 62a). Because "[t]he proper measure in eminent domain is what the owner has lost" (*ibid.*), the court accordingly rejected this element of the damages award, noting that "[t]he lesson [to the government] might be salutary, but it is not one the United States has consented to" (*ibid.*). The court also pointed out that, in any event, multiplying damages is appropriate, even where private parties are involved, only upon "a clear showing of willful and deliberate infringement" (*ibid.*). Such a showing could not be made here because "the government had the legal right to take the patents subject to its obligation to pay just compensation for them" (*id.* at 63a). For the same reasons, the Court of Claims declined "to grant the award of attorneys' fees * * *, again emphasizing that this is a punitive award not necessary to provide just compensation for the taking of [petitioner's] patent rights by the U.S. Government" (*id.* at 64a).

The court also rejected the "lost profits" component of the overall award, explaining that such a measure can be used as an alternative to computing just compensation only where the preferred "reasonable royalty" method cannot be applied. The trial judge, however, "awarded lost profits not as an *alternative* to the royalty but *in addition* to it," which the court found to be an improper

"double-counting" (Pet. App. 65a). Similarly, the court disagreed with the additional award made to petitioner based on savings to the government (the estimated savings were based on the difference between petitioner's bid and that of Eagle-Picher) on the ground that it also amounted to double counting (Pet. App. 66a). The court noted that savings to the government could in some circumstances be used in the calculation of a reasonable royalty but could not stand as a separate and additional element in the overall award (*ibid.*).

Turning to the issue of a reasonable royalty, the court first observed that "[e]ven excluding the lost profits, double damages and savings to the government * * * the disparity between [the government's] suggested royalty figure—\$12,349.46—and the amount urged by [petitioner] and the Trial Judge—\$358,883.08—is still wide" (Pet. App. 68a). It then proceeded to an independent review of the royalty issue and derived a "compensation base" of \$2,667,122.81 (*id.* at 76a). In determining the reasonable royalty yielded from this base, the court agreed with the trial judge "in both his methodology and with his ultimate conclusion as to the reasonable royalty [*i.e.*, percentage of the compensation base] due [petitioner] in this case" (*ibid.*). Finding, as the trial judge had, that "a royalty of 10 percent is justified in this case" (*id.* at 78a), the court derived a royalty award of \$266,712.28. The court conceded that this figure "may quite possibly be less than [petitioner] could be shown to be entitled to" (*id.* at 81a-82a), but it explained the difficulties of the matter as follows (*id.* at 82a):

Unhappily, the lengthy record in this accounting phase of the case is dominated by plaintiff's and the trial judge's pursuit of a large award, attempting to make good the injury to business on a tort theory, wholly inadmissible in eminent domain. To award

plaintiff even as much as we do, it has been necessary to search the record for evidentiary clues as to the fair market value of the license taken, which have found their way there without much help from the plaintiff. Any amount properly awardable, with the missing facts fully developed, would be but a small fraction of what is claimed. Here, as in our renegotiation cases, the party having the burden of proof must suffer if a scantiness of record fails to support a fully informed and reasoned determination.

ARGUMENT

Petitioner overstates both the holding of the Court of Claims in this case and the holdings of this Court in other cases. The Court of Claims here simply held that "reasonable and entire compensation," the equivalent of "just compensation" under the Fifth Amendment, consists of a reasonable royalty plus delay compensation—no more, no less. A reasonable royalty is the fair market value of a license in the patents taken. In awarding the fair market value of the property interest taken plus delay compensation, the Court of Claims followed the normal rule in awarding "just compensation."

By the same token, the Court of Claims' holding that punitive damages cannot be awarded under 28 U.S.C. 1498(a) follows the established rule that unless Congress has expressly provided otherwise, punitive damages cannot be awarded against the United States. *Missouri Pacific R.R. v. Ault*, 256 U.S. 554, 564-565 (1921). Similarly, "just compensation" does not include attorneys' fees. *Dohany v. Rogers*, 281 U.S. 362, 368 (1930). Furthermore, as the Court of Claims recognized (Pet. App. 65a-68a), it is not permissible to cumulate alternative methods of arriving at an award, such as lost profits, reasonable royalty and cost savings.

The Court of Claims' opinion demonstrates that the issues raised by petitioner were carefully considered and rejected. Indeed, not one member of the en banc court agreed with petitioner's arguments. The only argument not considered below is that regarding the Stockholm Convention (Pet. 32-33), an argument that petitioner never advanced in the Court of Claims.

Finally, petitioner's theory, based as it is on derivative liability under Title 35, is not presented by this case in view of the Court of Claims' holding that it would have reversed the trial judge's award of punitive damages even if this case were governed by Title 35 (Pet. App. 62a). The court found that the record failed to support the trial judge's finding of "willful and deliberate infringement" (see *id.* at 35a). Thus, even if this Court were to agree with petitioner's view of the law, there still would be no basis on which to support the exorbitant award granted by the trial judge.

1. Petitioner contends (Pet. 26) that the alleged failure to award a reasonable royalty plus delay compensation in this case renders 28 U.S.C. 1498(a) unconstitutional. The Constitution, however, does not grant a right to receive a patent or confer exclusivity on the patent holder. Rather Article I, Section 8 empowers Congress to confer patents on inventors. Congress is free to establish whatever patent rights and remedies it believes are necessary and proper to further this power. *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 663-664 (1834). While this Court in *James v. Campbell*, 104 U.S. 356, 358 (1881), stated in passing that the United States could not use a patented device without payment of "just compensation," it did not equate "just compensation" for use of a patent with the damages recoverable by a private party for the tort of patent infringement (see Pet. App. 56a).

The eminent-domain foundation underlying Section 1498(a) has been recognized by this Court. In *Crozier v. Krupp*, 224 U.S. 290, 305 (1912), the Court explicitly determined that the Act of June 25, 1910, ch. 423, 36 Stat. 851, was founded on eminent domain principles rather than in tort. In addition, the Court's citations to eminent domain cases in its opinion in *Waite v. United States*, 282 U.S. 508 (1931), is a further recognition of the eminent domain character underlying Section 1498(a).

Petitioner's reliance on *Cramp & Sons v. International Curtis Marine Turbine Co.*, 246 U.S. 28 (1918), is misplaced. All that the Court held in *Cramp* was that the Act of 1910 did not protect government contractors from separate suit. The Court was reluctant to find that Congress intended contractors to benefit from the government's eminent domain power. *Id.* at 45. In 1918, Congress nullified this decision by providing that a suit against the United States under Section 1498(a) is the exclusive remedy for infringements by government contractors. Act of July 1, 1918, ch. 114, 40 Stat. 705.¹

Petitioner's argument that Section 1498(a) would be unconstitutional if it did not allow an award of punitive damages also was properly rejected by the Court of Claims (see Pet. App. 58a-61a). The only requirement imposed by the Constitution is that the compensation be "just." An award of a reasonable royalty—the fair

¹Petitioner's reference to authorizing a "private citizen" to infringe is misleading. A government contractor acts as an agent of the government and not as a "private citizen" to the extent authority has been granted. In *Yearsley v. W.A. Ross Const. Co.*, 309 U.S. 18, 21-22 (1940), this Court recognized that the eminent-domain power of the government may extend to the acts of its contractors. Moreover, in *Yearsley*, this Court recognized that the Act of 1918 similarly limited a patentee's recovery to that of "just compensation" from the government. *Id.* at 22, citing *Crozier v. Krupp*, *supra*.

market value of the patent license taken—plus delay compensation is the exact equivalent of the property taken and fully constitutes “just compensation.” The fact that, prior to the Act of 1918, a patentee might have been able to recover more than “just compensation” in a tort suit against a contractor is immaterial. It is well settled that remedies can be modified, limiting liability, since there is no vested property right in a prospective cause of action. *Silver v. Silver*, 280 U.S. 117, 122 (1929). See also *Carr v. United States*, 422 F. 2d 1007, 1010-1011 (4th Cir. 1970).

This Court’s decision in *Richmond Screw Anchor Co. v. United States*, 275 U.S. 331 (1928), also fails to support petitioner’s arguments. In considering the Act of 1918, the Court nowhere addressed the issue of whether punitive damages or duplicative awards could be granted. Rather, the problem recognized by the Court was that if *both* the Anti-Assignment Act, 31 U.S.C. (1940 ed.) 203, and the Act of 1918 applied, the patentee would recover *nothing* for post-1918 infringement. Since such a construction raised the spectre of an appropriation of property without *any* compensation, the Court held that Congress could not have intended the Anti-Assignment Act to apply in that case. It is in that context that the Court characterized the Act of 1918 as securing the exact equivalent of the remedy it replaced, an action against a contractor. However, that is a far cry from holding that full tort damages, including punitive damages and attorneys’ fees, are awardable under Section 1498(a).

2. The right of exclusivity conferred upon a patentee by 35 U.S.C. 154 simply gives a patent the attributes of property. This “exclusivity” is subject to the government’s eminent-domain power to take a patent license just as a landowner’s exclusivity is subject to the

government’s power to take an easement. The only constitutional requirement is that “just compensation” be paid. 28 U.S.C. 1498(a) authorizes such an eminent-domain taking and requires the payment of “just compensation.” It does not conflict with 35 U.S.C. 154, for without the right of “exclusivity” no property would be taken and no compensation would be due under Section 1498(a).

The claim of a conflict between 35 U.S.C. 154 and 28 U.S.C. 1498(a) is further undermined by the Court of Claims’ statement that “[e]ven if this [were] a suit between private parties subject to the remedies of Title 35, we would not affirm an award of multiplied damages in this case” (Pet. App. 62a). The court determined that petitioner was not entitled to increased damages under 35 U.S.C. 284. Thus, even if petitioner’s legal theory were correct, it would be entitled to no more than the Court of Claims awarded.

3. Since, as stated above, the award of a reasonable royalty plus delay compensation is “just compensation” for the taking of a patent license, the Court of Claims’ decision does not conflict with the Fifth Amendment.² The Fifth Amendment does not require that compensation be paid at the time of taking, and hence the fact that suit must be brought in the Court of Claims to recover damages causes no constitutional problem. *Hurley v. Kincaid*, 285 U.S. 95 (1932).

²The license considered by the Court of Claims in formulating its award includes the right to *manufacture* and use the batteries (see Pet. App. 77a-78a). Thus, it provides adequate compensation for the acts of both the government and its contractor.

The Comptroller General's decision that procurement contracts for patented articles are to be awarded to the lowest responsible bidder without regard to whether the bidder is licensed under any patents recognizes that the Court of Claims, and not the General Accounting Office, is the exclusive forum for determining whether the government has used a valid patent without authorization.³ To hold otherwise would delay the performance of procurement contracts until after a determination of the patent owner's rights had been made. Moreover, the number of patents held invalid after litigation suggests that lengthy proceedings would be necessary to ensure that exceptions to competitive bidding procedures would not be made on the basis of invalid patents.

Finally, the conspicuous absence of any exception to competitive bidding in the Armed Services Procurement Act, 10 U.S.C. 2301 *et seq.*, for patented goods indicates that Congress views the mandate for competitive bidding to be of overriding importance. See *Paul v. United States*, 371 U.S. 245 (1963). Indeed, in 1966 Congress declined to pass a proposed amendment to 10 U.S.C. 2304(a) that would have provided such an exception where an agency head determined that a valid claim for patent infringement would result from purchase from an unauthorized source. 112 Cong. Rec. 10272 (1966). In Congress' view, a party claiming patent infringement has an adequate remedy in a suit for "reasonable and entire compensation" in the Court of Claims.

³An exception exists in the case of agencies that are authorized by statute to settle administrative claims for patent infringement. See, e.g., 10 U.S.C. 2386.

4. The argument that the Court of Claims decision conflicts with international treaties was never raised before the Court of Claims and therefore should not now be considered. In any event, Article 2 of the Stockholm Convention merely requires that foreign patentees have the same rights to sue for infringement as nationals (see Pet. App. 128a-129a). The Court of Claims has never held that a foreign patentee would recover less or be otherwise discriminated against in an action under 28 U.S.C. 1498(a).

Article 5A of the Stockholm Convention (Pet. App. 129a-130a) is also immaterial. It restricts the rights of member nations to impose sanctions through forfeiture or granting of a compulsory license when the patentee "abuses" his monopoly rights by failing to work, or by suppressing, the patented invention. However, under United States patent law, the patentee is free to do nothing with his patented invention without incurring sanctions for non-use. *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429-430 (1908). Thus, Article 5A has no application to United States law.

CONCLUSION

The petition for a writ of certiorari should be denied.
Respectfully submitted.

WADE H. MCCREE, JR.
Solicitor General

ALICE DANIEL
Acting Assistant Attorney General

LEONARD SCHAITMAN
THOMAS J. BYRNES
JOSEPH B. SCOTT
JOHN FARGO
Attorneys

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